MARKET WIRE
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Strong profit growth from Compumedics suggests share price rerating is imminent

June 09, 2016 TREVOR HOEY

Diversified medical devices group, Compumedics, announced on Wednesday morning that its Germany based business, DWL, had received an additional $700,000 in sales orders from its distributor in China.

This development is significant from a number of perspectives and tends to support the fact that Compumedics' share price can rerate strongly in the near term to meet broker share price targets of circa 80 cents.

To put this recent development in perspective, it will support a continued strong performance by DWL from its China operations which have generated annual sales growth of 15% over the last three years.

This is not only an important market for Compumedics, but it is one where the company has a distinct advantage given that it has worked at building a presence over a period of more than 10 years. Establishing relationships and understanding markets in that region is often the difference between success and failure.

Plenty of companies have a crack at China, but a large percentage exit the region empty-handed. As highlighted by Compumedics' chairman and chief executive, Dr David Burton, 'Compumedics is now the number one supplier of premium sleep diagnostic and neurological research systems in China and is carving out a similar position in Transcranial Doppler Sonography (TCD) systems'.

DWL has a 35% share of the TCD market and these developments place the company in a position to grow sales in its existing products, but just as importantly generate additional revenue streams by introducing other medical products into that region.

DWL has unveiled devices that enable blood vessels to be diagnosed and treated with reliable precision and efficiency. Currently, 8000 DWL systems are installed in more than 120 countries.

Compumedics has engaged Mr Steve Otto to expedite the commercialisation of the company's new proprietary CURRY MEG technology which is a combination of the group's existing brain analysis software and the Korean Research Institute of Standards and Sciences (KRISS) highly regarded magnetoencephlalography hardware.

The CURRY MEG is a major strategic initiative for Compumedics which has the potential to add annual incremental revenues of $10 million within the next 24 months. Furthermore, the group recently announced it had secured a worldwide license from KRISS to exploit intellectual property rights to this hardware.

Compumedics is also involved in the development, manufacture and commercialisation of diagnostic technologies for sleep monitoring. In fact, the group was an early mover in this area, successfully designing and installing the first Australian fully computerised sleep clinic in Melbourne.

This could prove to be the next leg of growth for the company with a newly developed cloud-based sleep diagnostic platform ready for commercialisation. Its eHealth technology takes clinic grade analysis into homes, potentially expanding its market significantly as individuals take charge of their health in a far more convenient environment at a time when public medical resources are stretched.

Compumedics already has a 6% share of the global premium sleep diagnosis market and management is confident that technology currently in development has the potential to increase market share because of its superior attributes compared with current devices on offer – a big call when you consider the billion-dollar players in the industry that are trading on 100% higher multiples than Compumedics.

Analysts at Pac Partners initiated coverage of Compumedics in October, noting that the group was delivering on its four growth drivers, being lowering of costs of base sleep and neuro diagnostic platforms, accelerating growth in China and the US, opening up new channels with e-commerce and facilitating the generation of new revenues through its emerging technologies.

The broker noted in February that the group was delivering on all of these counts, particularly emphasising that some of the 'blue sky' they were looking for had already been converted to 'tangible cash flow' via the MEG division.

Because it has a higher degree of sensitivity and faster measurement of brain signals than standard magnetic resonance imaging (MRI), MEG is well-suited to investigating significant neurological disorders such as Alzheimer's, Parkinson's, epilepsy and autism, with the former two becoming more prevalent due to the ageing population.

This prompted the broker to increase its price target by 20% to 80 cents per share, which appears justified based on earnings projections. The broker is forecasting Compumedics to generate a net profit of $3.1 million in fiscal 2016, nearly doubling to $6 million in fiscal 2017, representing earnings per share of 3.6 cents.

This implies a PE multiple of 11, seemingly conservative for a company that is forecast to generate earnings per share growth of 90% and 46% in fiscal years 2017 and 2018 respectively.

It is important to note that since fiscal 2014 Compumedics has been a profitable operation with solid cash flow. Pac Partners is forecasting profit growth of 60% in fiscal 2016, with more than 60% of projected earnings having already been delivered after a strong first half in which the company doubled its year-on-year net profit to $1.9 million.

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